

Message Text

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ACTION ARA-14

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FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 9902
INFO AMEMBASSY BUENOS AIRES
AMEMBASSY BRASILIA
AMCONSUL SAO PAULO
AMEMBASSY LA PAZ
AMEMBASSY LIMA

UNCLAS SANTIAGO 5414

E. O. 11652: N/A
TAGS: EFIN, AFIN, ALOW, CI
SUBJECT: JUNE INFLATION, MONEY SUPPLY AND IMPORT REGISTRATION
TRENDS

1. THE CHILEAN CONSUMER PRICE INDEX (CPI) ROSE 2.02 PERCENT IN JUNE ON A NON-SEASONALLY ADJUSTED BASIS TO 2,168 PERCENT OF ITS 1974 BASE. ACCUMULATED INFLATION IN 1978 NOW TOTALS 14.7 PERCENT. THE 1978 JUNE CPI WAS 1.08 PERCENTAGE POINTS LOWER THAN FOR THE SAME MONTH LAST YEAR. THE JUNE RATE COMPARES FAVORABLY WITH AN AVERAGE MONTHLY INCREASE OF 2.36 PERCENT IN THE FIRST FIVE MONTHS OF 1978.

2. THE ACCELERATION IN PRICES OCCURRED PRIMARILY IN THE HOUSING COMPONENT WHICH INCREASED BY 5.3 PERCENT. THE CLOTHING INDEX ROSE BY 2.3 PERCENT, FOLLOWED BY MISCELLANEOUS 1.7 PERCENT AND FOOD 0.9 PERCENT.

3. AN EMBASSY-CONSTRUCTED 16 ITEM FOOD MARKET BASKET KEYED
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TO THE PURCHASES OF MEDIUM AND LOW INCOME FAMILIES INDICATES A FIRST SEMESTER 1978 INFLATION RATE IN THE FOOD COMPONENT OF 19.5 PERCENT, COMPARED TO THE OVERALL OFFICIAL RATE OF 14.7 PERCENT. THIS VARIATION UNDERSCORES THE CONTINUING HIGHER REAL WAGE COST OF INFLATION TO THE WORKING CLASSES WHO SPEND A LARGER PROPORTION OF DISPOSABLE INCOME ON FOOD PURCHASES.

4. INFLATION OVER THE PREVIOUS 12-MONTH PERIOD NOW STANDS AT 40.4 PERCENT. A LINEAR TREND STARTING FROM JULY 1977 THROUGH JUNE 1978 INDICATES AN UPPER LIMIT ON 1978 INFLATION OF 31.5 PERCENT.

5. MINISTER OF FINANCE SERGIO DE CASTRO HAS ESTIMATED A LOWER LIMIT ON 1978 INFLATION OF 25 PERCENT. ACCORDING TO THE OFFICIAL EXCHANGE RATE SCHEDULE, ONE DOLLAR WILL EQUAL P\$33.95 ON DECEMBER 31, 1978. IF INFLATION IN CHILE IN 1978 IS 25 PERCENT THE P\$33.95 WOULD BE EQUAL TO P\$27.16 OF DECEMBER 31, 1977. IN PESOS OF THE SAME PURCHASING POWER IN THE CHILEAN MARKET ON DECEMBER 31, 1977 ONE PESO WOULD BY US\$9.035765 WHILE ON DECEMBER 31, 1978 ONE PESO WILL BY US\$0.036819. THE CHANGE IMPLIES A REVALUATION OF 2.95 PERCENT. HOWEVER, BY INTRODUCING US INFLATION AS A FACTOR (PARITY EXCHANGE RATE) THE PESO WHICH WOULD HAVE EQUALLED US\$0.036819 ON DECEMBER 31, 1978 IS REDUCED TO US\$0.03441. IN PESOS AND IN DOLLARS OF EQUAL PURCHASING POWER THE ONE PESO WHICH BOUGHT US\$0.035765 ON DECEMBER 31, 1977 WILL PURCHASE ONLY US\$0.03441 ON DECEMBER 31, 1978. IN REAL TERMS THE PESO WILL THUS BE DEVALUED BY 3.79 PERCENT. ASSUMING THAT 1978 INFLATION WILL FALL WITHIN THE RANGE OF 25-30 PERCENT, THE FOLLOWING TABLE ILLUSTRATES THE MONETARY EFFECT ON THE VALUE OF THE PESO:

PROJECTED	NOMINAL PESO	REAL PESO
INFLATION	REVLUTION	DEVALUATION
(PERCENT)	(DEFLATED BY US WPI/	
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		PERCENT PERCENT)
25	2.947	3.789
26	3.786	3.004
27	4.603	2.251
28	5.431	1.467
29	6.230	0.713
30	6.880	0.098

6. THE TALBE DEMONSTRATES THAT AT THE PRESENT PROJECTED ANNUAL INFLATION RATE THE PESO IS ON THE BORDER BETWEEN DEVALUATION AND REVALUATION. ASSUMING THAT INFLATION CONTINUES TO APPROACH THE LOWER LIMIT PROJECTED BY MINISTER DE CASTRO (I.E. PESO DEVALUATION) IT IS PROBABLE THAT THERE WILL BE NO CHANGE IN XCHANGE RATE POLICY THROUGH THE REMAINDER OF 1978. SHOULD THE PESO END THE YEAR WITH A REAL DEVALUATION OF BETWEEN 1.5 AND 3.8 PERCENT IT IS LIKELY THAT 1979 EXCHANGE RATE POLICY WILL REPEAT THE FIXED DAILY DEVALUATIONS BASED ON INCREASES IN THE CPI.

7. MONEY SUPPLY (M1): FIGURES FOR JUNE SHOW A 1.5 PERCENT DECREASE FROM MAY 1978. EXPANSION OF M1 THUS FAR IN 1978 CONTINUES THE DECLINE BEGUN IN APRIL AND NOW TOTALS 32.7 PERCENT (DOWN FROM 34.9). REVISED FIGURES FOR MAY SHOW A NEGATIVE 0.5 PERCENT

GROWTH RATE, FOLLOWED BY A NEGATIVE 1.5 PERCENT IN JUNE. DESPITE THE CONTRACTION OF THE PRIVATE SECTOR MONEY SUPPLY, SHORT-TERM 30-DAY INTEREST RATES HAVE DECLINED TO 4.38 PERCENT PER MONTH. A SLOWING, HOWEVER, THE RATE OF DECLINE HAS BEEN NOTED OVER THE PAST WEEKS. FURTHER EASING OF INTEREST RATES IS DEPENDENT ON COMMERCIAL BANK ACCESS TO FOREIGN LOANS. HOWEVER, CENTRAL BANK RESTRICTIONS ON THE MARGIN OF FOREIGN INDEBTEDNESS ARE SEVERELY LIMITING INCREASED FLOW OF FUNDS FROM ABROAD. BECAUSE OF THE MARGIN PROBLEM MORE FOREIGN CAPITAL IS AVAILABLE TO THE DOMESTIC MARKET THAN CAN BE LEGALLY ABSORBED BY CHILEAN COMMERCIAL BANKS.

8. IMPORT REGISTRATION TRENDS: IMPORTS IN JUNE WERE VALUED AT US\$284 MILLION. THE FIGURE FOR THE PERIOD JANUARY-JUNE 1978
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SHOWS AN INCREASE OF 23 PERCENT OVER THE SAME PERIOD LAST YEAR.
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